

Budget, Finance and Operations

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Business Functions of the City

- Human Capital
- Physical Capital
- Strategic Allocation of Resources
- Multi-Channel Communication with Citizens

Human Capital

- The City employs approximately 2200 permanent full time and part time employees. As a result, the City must address the same issues that any employer deals with – compensation, administration of benefits, work rules, recruitment, retention and training.

Physical Capital

- The City owns property – both for its own use (e.g. City Hall) and for future development. It maintains a fleet of 1635 vehicles including police cars, garbage trucks and equipment and an information technology infrastructure that supports all other City departments. The City also expends approximately \$80 million a year as a consumer, buying goods, services, construction and materials from the private sector.

Strategic Allocation of Resources

- City Council appropriates operating budgets for various funds. Most government operations are budgeted in the general fund. Separate funds are used to account for the operations of the Interceptor Sewer System, Solid Waste program, Stormwater management and other areas of City government.
- More so than ever before, the City now is using data to make day to day management decisions about the strategic allocation of resources. Every City department – and some outside funded agencies – are monitored on a regular basis through **chattanoogaRESULTS**.

Citizen Communication

- The City has regular public meetings (including meetings of the City Council, which are televised). The City's website, www.chattanooga.gov, is also increasingly becoming a means of communicating with the public. Finally, the City's 311 system now complements 911 to one call access to all City non-emergency (311) and emergency (911) services.

The City's Current Fiscal Picture

- The City is in the midst of its third year in a row of balanced budgets without tax increases or layoffs.
- As other municipalities have weathered one of the worst budgetary periods since the Great Depression, the City has been able to maintain delivery of essential services and a AA bond rating.
- The City has maintained a strong fiscal position as indicated by its healthy undesignated reserves of more than 20% of General Fund expenditures. In the last three years, the City has added almost \$10 million to its now \$36.6 million unreserved fund balance - \$6 million was added last year alone.

The Budget Process

- The City's fiscal year begins on July 1.
- The Council acts on a Budget Ordinance that includes the General fund, special revenue funds and enterprise funds.

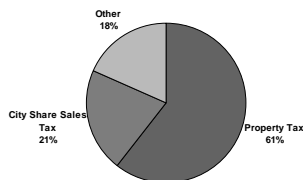
The Budget Process

- The General Fund has a \$146.5 million annual budget.
- The Interceptor Sewer System (ISS), an enterprise fund dedicated to operation of the sewer system, has an annual budget of \$34.8 million. The ISS Fund is funded primarily by sewer service and wheelage fees and is not subsidized by General Fund sources.

The General Fund Budget - Revenue

- More than fifty different revenue sources contribute to the funding of the General Fund. But there are two principal sources – property taxes and the City share of State and County sales tax.
- .25% of the county-wide sales tax collected in the city generates another \$8.9 million earmarked for economic development efforts, primarily debt service on The Chattanooga, Trade Center expansion and Development Resource Center.

General Fund Revenues



Local property tax accounts for 61% of all General Fund revenue -- \$88.8 million. City share of sales tax accounts for another 21% of all General Fund revenue -- \$30.8 million.

The General Fund Budget - Revenue

- The current property tax rate is \$2.516 per \$100 of assessed valuation. The last increase was in 2001, rising from \$2.310.
- In 2005, there will be a State mandated reappraisal of all property. Four years ago, reappraisal resulted in a 17% increase in assessed property valuation.
- After reappraisal, the City could have its lowest property tax rate in over 50 years.

General Fund – Revenue

- Tennessee has the highest sales tax in the nation. In Chattanooga, state and local sales tax totals 9.25%.
- Reliance on sales tax revenue raises concerns. The sales tax is more subject to economic volatility and, in border cities like Chattanooga, can lead to “leakage.”
- State tax rate of 7%, yet City receives a share of only the first 6% of revenue. City also shares revenue from 2.25% County Sales Tax.

General Fund - Revenue

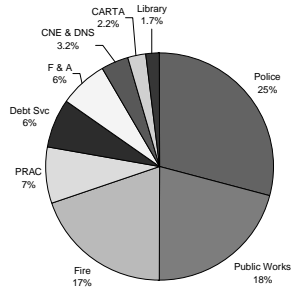
- Combination of increase in property assessments and increase in tax rate resulted in a one year increase of revenue of 9.7% in FY 2002.
- Since FY 2002, without further tax increase, City revenues have grown 3.8% despite a significant reduction in State shared revenue (\$1.8 million cut in FY 2004). City has increased some fees, permits and fines as an offset to reduction in state shared revenue.

General Fund - Spending

- Since FY 2002, City has run annual surpluses of \$2.2 million, \$3.8 million and \$6 million. Actual City General Fund spending increased by just 1.1% -- less than one-third of the rate of revenue growth.
- In FY 2004, the City actually spent less than it did in FY 2003.
- FY 2005 operating Budget is within 1% of the FY 2002 operating budget.

General Fund Spending Chart

Most of the General Fund budget is dedicated to delivery of essential City services.



General Fund - Spending

- Employee Benefits are the fastest growing component of the General Fund budget.
- Between FY 2000 and FY 2005, City spending on retiree and employee health insurance has grown from \$11.1 million to \$17.1 million – 54% increase
- Between FY 2000 and FY 2005, City contributions to General Pension Plan and Fire and Police Pension Plan have grown from \$5.3 million to \$8.2 million – 55% increase.
- Increase in benefit costs accounted for approximately two-thirds of increase in City spending between FY 2000 and FY 2004.

Debt Service

- Total debt Service payments have also increased since FY 2000, but most of the increase is the result of debt service for the Southside projects – The Chattanooga, DRC and Trade Center expansion.
- In FY 2004, debt service payments totaled \$37.7 million, including \$14.2 million for the Sewer system, \$10.9 million for General Government, \$7.2 million for the Southside projects, \$3.2 million for Solid Waste and \$2.3 million for Stormwater.
- The City is contributing 100% of the debt service on the Trade Center expansion and two-thirds of debt service on the original Trade Center.
- In FY 2007, annual debt service payments for the Southside projects will increase from \$7.2 million to \$9.7 million. At the same time, debt service payments on the original Trade Center will be complete, eliminating \$1.4 million in cost to City.

Capital Spending

- Debt service is one means of funding the City's overall capital budget. Funding also comes from pay as you go funding, Federal, State and other sources.
- In FY 2003, City began using a five year capital plan to guide decisions.
- In FY 2005, Capital Budget totaled \$28.4 million, with \$12.2 million going to Public Works.
- Excluding funding for the 21st Century Waterfront, City has averaged \$35 million a year in capital spending with funding from all sources (debt, pay as you go, MPO).

City Employees

- Since FY 2002, the City has reduced the number of authorized employees by 250. Reduction in Force program and vacancy control has also led to reduction in actual number of employees.
- City employees are representative of a diverse city. June 2003 EEO Report indicates that 36.4% of full time City employees are persons of color compared to 40.3% of City residents and 36% of City residents 18 or older.
- Like any employer, the City experiences turnover. During the first five months of FY 2005, 95 employees separated from City service: most either retired (36) or resigned (38). Half of all resignations were by individuals with less than two years of City employment.

Compensation and Benefits

- City employee pay is guided by three pay plans: two for sworn personnel and one for all others.
- Pay plans are based on both length of service and skill requirements for the position. The City does not currently have a process for rewarding merit.
- Historically, the City awards either a "step" increase annually, a cost of living increase or both. The average cost of a step increase is 4% of salary.
- When employees reach the final step of a grade, their pay is effectively frozen. The City has provided "topped out" employees with one time bonuses equal to a cost of living increase. As of June 2004, 339 City employees were topped out.

Compensation and Benefits

- Currently, the City provides health insurance for more than 6,800 employees, dependents and retirees.
- Employees can choose from either an HMO open access plan or a Point of Service Open Access plan provided by CIGNA.
- Retirees under 65 can be in either of the plans, while retirees over 65 are required to be in the Cigna PPO Plan.
- There are 150 retirees and dependents in a self funded health insurance plan for pre-1983 retirees.
- Under the CIGNA HMO open access plan, employees are required to contribute 20% of the cost. The plan includes office visits, emergency room care, prescription drugs.
- City also has opted out of state Workers Compensation Program and provides its own on the job injury program.

Compensation and Benefits

- Two pension plans – General Pension Plan and Fire and Police Pension Plan – provide benefits to City retirees
- General Pension Board consists of seven members including the Mayor or his designee and six mayoral appointees. Charter caps employees contribution at 2%. City contribution (currently 4.07% of salary) is determined by asset performance and actuarial review.
- Fire and Police Pension Board members – with the exception of the Mayor – are elected by plan members. City must contribute a minimum of 10% of salary and employees must contribute a minimum of 8%. City currently contributes 18.39% of salary.

Citizen Communication

- Part of the business of the city is communication with residents.
- 311 allows residents to access virtually all non-emergency services through one telephone number. Before 311, residents were forced to choose from dozens of different numbers – a form of “blue pages roulette.”
- 311 Call Center staff of 7 now answer approximately 970 calls per day. Approximately half are requests for information and half are requests for city services.

Smaller and Smarter Government

- Over the last four years, the business functions of City government have been re-engineered leading to greater focus on efficiency and effectiveness.
- The emphasis on smaller and smarter government has allowed the City to close “structural deficits” without service reductions that affect quality of life.

Budget and Finance

- PEG: Budgeting process was changed to focus on department driven development of program to eliminate gap (PEG) to ensure balanced budgets
- Vacancy Control: All hiring for authorized positions is now reviewed by Chief of Staff, CFO and Personnel Director to assess continued need. In FY 2004, vacancy control contributed to \$2 million in savings.
- Health Insurance: Slowing increases in health care costs as a result of competitive bidding and more consumer driven plan. CIGNA has effectively lowered cost of claims. City wellness program can produce long term health insurance cost savings and provides a significant benefit to employees.

Budget and Finance

- Five Year Capital Plan: Multi year plan allows for smarter allocation of resources and better financial planning
- Capital Finance Innovations: City has taken advantage of innovative, limited risk financing alternatives that reduce costs of debt including enhanced use of Tennessee Municipal Loan Fund, federal Section 108 loan guarantees and “swaption” refinancing
- INVEST and SAVES: Programs designed to continue to reduce future costs and increase revenues through strategic investments in City efforts to increase efficiency and partnerships to reduce crime and poverty. SAVES creates a “venture capital” fund for public sector investments that produce long term budgetary savings.

Operational Efficiency

- **RESULTS:** Every City department is now focused on results. Mayor and senior staff review departmental spending and outcomes on a monthly or quarterly basis and use data from 911, 311 and other sources to more effectively manage. RESULTS process focuses on problem solving.
- Initial focus on overtime in FY 2003 reversed a 25% projected OT increase and led to a savings of \$175,000, a 7% reduction. Focus on cell phone utilization led to new contract.
- Office of Performance Review performance audits and reviews: OPR reviews of procurement, operations of City Court and fleet management have led to cost-saving reforms.
- Competitively bid consolidated banking services including merchant card and procurement card. Procurement card has generated \$1 million in savings

Technology

- 311: Investment in technology both improved citizen access and created single source for data on responsiveness to non-emergency service requests.
- Website and Supernet: Improved website will allow for even more City services to be delivered on line. Supernet allows for enhanced computer access for City employees.

First Six Months of New Administration

- Almost immediately upon taking office, new Mayor and City Council will need to begin to make decisions about the FY 2006 Operating Budget.
- Five Year Capital Plan can guide FY 2006 Capital Budget.
- Budget will be driven by decisions that focus on employee compensation and benefits.
 - Health Insurance – RFP and Wellness Incentives
 - Compensation: Decision about amount of pay increase, whether it is a "step" increase or a cost of living.

First Six Months of New Administration

- State Budget: State should restore at least half of the 2003 reduction in State shared taxes. This should increase revenue by at least \$1 million in FY 2006 and potentially another \$1 million if there is full restoration.
- County Budget: County's failure to fund school resource officers in City schools resulted in loss of \$750,000 in revenue in FY 2005. City should look to County for funding in FY 2006. County funding for Library should close \$320,000 gap in FY 2005 budget.

First Six Months of New Administration

- Organizational and Reporting Issues: New Administration will need to consider structural relationship between Finance & Administration and OPR. Under grant from National Center for Civic Innovation, City will publish performance reports for first time in June 2005.
- City Hall: Beginning of renovation and restoration of City Hall
- Website: March 2005 launch of new website should lead to increased use for services and information.

Challenges and Opportunities for the Future

- Taxes and Tax Structure: Reappraisal and reassessment will allow reduction in tax rates
- Increasing Revenue Opportunities: City has very limited power to change its revenue sources. Should there be a future need for new revenue, State law changes could allow City to increase revenue through sin taxes and red light camera enforcement.
- Fines and Court Fees: Reduction in court cases and constitutional limit on fines have resulted in reduced revenue despite increased enforcement and collection efforts.

Challenges and Opportunities for the Future

- Employee Compensation: Internal Task Force is reviewing alternatives to current City Pay Plan that will include pay for performance. Golf Course employees have already moved off of Pay Plan.
- Pension Funds: General Pension Plan litigation against prior investment consultant seeks to recover damages. Finance & Administration is working with Fire & Police Pension Fund to determine long term needs for funding.

Challenges and Opportunities for the Future

- Debt Service: Capital financing should continue City policy of mix of funding sources to avoid increases in debt service. Restoration of State shared revenue is a potential source of funding.

Challenges and Opportunities in the Future

- On the Job Injuries: Need to continue efforts to stabilize costs related to OJI. In 2003, OJI budget was shifted to departments to encourage risk management efforts.
- Savings/Revenue Opportunities: Savings could result from consolidation of procurement and building maintenance functions. Revenue could result from municipal marketing agreements.

Challenges and Opportunities for the Future

- Budgetary Relationship with Outside Agencies: City should examine moving agency appropriations into department budgets based on performance based contracting. City should also examine opportunity for utilization based subsidies for Library and CARTA.
- City/County: City and County must reach new lease agreement on Moccasin Bend Golf Course. City should also enter into new agreement for Trade Center that recognizes City full funding of expansion (e.g. City, through CDRC, should lease expansion to Carter Street Corporation). City and County should also examine opportunities for back office operation consolidation and possible efficiencies through consolidated staffing of 911 Center.

Challenges and Opportunities for the Future

- Performance Management: Ongoing chattanoogaRESULTS process should enable administrators to continue to improve service quality and efficiency.
